

STATE EMPLOYEE COMPENSATION INTERIM COMMITTEE

JFAC Room, Statehouse, Boise, Idaho
July 26, 2005

MINUTES (Condensed)

The meeting on July 26, 2005, was called to order at 9:00 a.m. by Co-chair Senator John Andreason. Other committee members present were: Co-chair Representative Bob Schaefer, Senators Dick Compton, Joe Stegner, John McGee, Bert Marley, Kate Kelly and Representatives Larry Bradford, Ken Roberts, Rich Wills, Jana Kemp, Anne Pasley-Stuart and Shirley Ringo. Senator Michael Jorgenson was absent and excused. Staff members present were Matt Freeman and Charmi Arregui.

Others present on July 25, 2005 included: Ann Heilman and Jay Anderson, Division of Human Resources; Pam Ahrens and Rick Thompson, Department of Administration; Amanda Brown, Service Employees International Union (SEIU); Jane Kinn Buser, Boise State University; Tim O'Leary, Idaho State Police (ISP); Dona VanTrease, Vickie Burnet and Vicki Patterson, Idaho Public Employees Association (IPEA); Brandon Woolf, State Controller's Office; Kent Kunz, Office of the Governor; Judi Gregory and Joe Tueller, Department of Juvenile Corrections (DJC); Nina Eng, Congressman Otter's office; Dave Tuthill; Amy Castro and Cathy Holland-Smith, Legislative Services Office; Brad Foltman and David Hahn, Department of Financial Management (DFM); Joseph Brunson and Diana Jansen, Health & Welfare; Colonel Dan Charboneau, Ann Cronin and Terry Morgan, Idaho State Police; Mary Harker, Department of Transportation; Pam Sonnen and Gary Charland, Department of Correction; Lawrence Wasden, Attorney General; and Robert Kustra, President, Boise State University.

Brad Foltman, Administrator, Division of Financial Management (DFM), discussed DFM's role and responsibilities under the state constitution and statutes. **Mr. Foltman** said DFM does support the Hay System in light of what neighboring states have experienced. A state needs some system in order to generate the internal equity and external equity to ensure that the state is treating the labor force fairly and that job skills and knowledge are adequately addressed through a system of pay. From DFM's perspective, funding is the major issue in any system; it works if there is funding available.

Mr. Foltman discussed compensation increases and jobs that are in high demand, and then moved on to Idaho Code Title 67, Chapter 35, which sets forth the state budget process. **Mr. Foltman** commented that DFM finds that the bonus provisions currently in statute are very restrictive (i.e. the \$1,000 limit and the requirement of excellent performance). There are a number of situations where the state could recognize employees such as employees of the month and other recognition programs that may be very helpful. On occasion, there are errors in the payroll system that occur and DFM needs to go back and be able to make corrections and adjustments and they can do that now only on a very limited basis. Also, employees who are at the top of their pay grade can't be paid outside that current pay grade; if they could receive an increase without bridging the current requirements and not have it go against their \$1,000 bonus limit for the year, that would be helpful.

Senator Andreason asked when the legislature bases salary increases on performance, can DFM provide salary increases for performance using a 1% salary increase? **Mr. Foltman** said it can only be accomplished in a very limited capacity; 1% does not allow DFM to truly address performance issues that an agency may have. When an employee works diligently throughout the year, 1% does not provide enough flexibility to address true performance issues.

Senator Andreason asked if **Mr. Foltman** recalled the percentage of increase that the Governor had recommended over the past three fiscal years. **Mr. Foltman** answered that during the years of holdbacks, there was not an ongoing salary increase proposed; last year there was. The ranges were smaller than in the 1990s; the last few years the recommendation was 2% or 3% including some salary equity issues for higher education, for example, for 2006 including a 1% ongoing increase.

Representative Wills commented that for a salary increase to be granted to an employee there are many time-consuming steps. **Mr. Foltman** said that the role of DFM is to ensure that funding is available, and that an agency is not exceeding its ability to pay its financial obligations in the current year, plus obligating at a level that in the following budget year would cause them to either need a supplemental or a significant revenue source infusion. **Representative Wills** asked what can be done to streamline this process to make it easier. **Mr. Foltman** responded that it comes back to the issue of what are sufficient checks and balances in this process, believing this is the desire of the legislature to make sure that controls are in place to assure that more than one person or entity is reviewing and looking at issues to ensure fairness between agencies and to avoid over-obligation.

Representative Kemp commented that if funding is the primary issue, she saw no changes proposed and asked how the legislature might approach the funding issue to ensure that funding continues forward at the same and increased level. **Mr. Foltman** said DFM would like to see as simple a pay structure as possible and more flexibility given to agency directors to manage personnel costs. **Representative Kemp** asked what **Mr. Foltman** would suggest the legislature do to provide adequate funding? **Mr. Foltman** answered that most of the funding for personnel costs for state agencies comes from the state general fund and there are many competing priorities (public schools, higher education, child support enforcement issues, health and welfare, Medicaid, etc.) This committee's role is much like that of the Governor's, taking multiple priorities and balancing them in the best way possible.

Senator McGee referred to a particular bonus program in Idaho Code §67-5309C(b)(iv) as a method of recognizing employees for an idea to save state resources, and asked about the funding mechanism. **Mr. Foltman** answered that agencies normally would have money available for such an employee, but the issue is how that competes with the normal bonus program. **Senator McGee** asked if the legislature needs to redefine in code, specifics regarding a bonus based on savings to the state or if that was up to directors of agencies. **Mr. Foltman** stated that further development of the concept needs to be done, because trying to implement from a legislative intent standpoint has been difficult for some department directors to recognize.

Representative Ringo said that it takes a great deal of courage for most employees to voice their opinions, and many employees are reluctant to speak out. She has heard there is quite a discrepancy on how merit pay is applied among different agencies and asked if this has been investigated? **Mr. Foltman** answered that is more the role of DHR, whereas DFM's role is more

specific to providing funding sources, adding that biases do enter into evaluations even though the state trains to provide uniformity across state government.

Representative Roberts made a comment regarding state employees being 14.2% behind the market and **Mr. Foltman's** comment about the flexibility within dedicated fund agencies.

Representative Roberts asked if dedicated fund agencies are closer to market than general fund agencies. **Mr. Foltman** answered that salaries vary both by fund source and by particular agencies, adding that there is definitely a correlation between agencies who charge and raise fees to support services or activities and their increases in compensation to employees over time.

Ms. Heilman summarized her recommended changes for the FY 2006 Change in Employee Compensation (CEC). She then discussed how health care benefit costs are rising and how that makes it difficult to fund compensation increases as needed. **Ms. Heilman** said that according to a recent nationwide survey, this is the third year employers granted raises under the 4% plus levels common in the 1990s. The state, however, did not even average 3.5% during the 1990s. When the market moves like that, the state might be running as fast as it can, but the market is running ahead at a much stronger pace and sometimes it laps ahead.

Next, **Ms. Heilman** discussed issues with holiday pay and coordination of DHR and DFM regarding personnel issues.

Senator Compton asked if **Ms. Heilman** was suggesting changes with her comments. **Ms. Heilman** referred to Idaho Code § 67-5304 and said her interpretation was that DFM or the Governor's budget office does not have approval authority over compensation increases and that the drafters of this statute just wanted DFM to worry about it if it was not within the budget constraints of the agency. **Ms. Heilman** said she would like for agency directors to be able to give raises and there wouldn't be a central budget office approval other than for their whole budget plan.

Ms. Heilman discussed the duties of DHR regarding establishing benchmarks and conducting benefit surveys, and how the Governor's recommendation is submitted to the legislature. She also explained that the intent of the legislature set forth in Idaho Code § 67-5309C(b) is vague and ambiguous.

Senator Compton stated he looked to **Ms. Heilman** for recommendations because this is a citizen legislature and the members of this committee do not deal with these issues on a daily basis. Recommendations from experts would be most welcome by this committee, and they can then decide on whether to support those recommendations. **Senator Andreason** affirmed that it is the intent of the co-chairs and the staff to request that the speakers invited to these meetings come forth with recommendations for the committee's consideration. **Ms. Heilman** responded that last year's CEC report (given to the legislators for briefing prior to the first meeting) did include the recommendation that additional funding be targeted at certain occupational groups. **Ms. Heilman** offered to develop that further, what that would look like, if that would be the intent of the committee, pointing out that there are different perspectives the committee may or may not want.

Ms. Heilman next discussed pay based on performance and stated that no raises are processed unless there is a current performance evaluation on file; DHR is refining the performance evaluation process and system. If the committee is considering whether a merit

increase should be guaranteed based on a performance rating, DHR is well under way to make that possible.

In response to a question from **Senator Compton**, **Ms. Heilman** said there is a team from DHR working out a new system with state agencies for more clarity about distinguished performers who are limited in number in the workforce.

Senator Andreason commented that with so many employees below market that the committee may want to consider a plan based on whether an employee simply meets expectations. **Ms. Heilman** said the concept behind the state's compensation plan is that a state employee may expect to advance to this market average point. The budget is supposed to be set at that policy rate, so when a position becomes vacant, it would be budgeted at that policy rate. If it reflected market, when an employee was hired near entry, there would be a gap between what was budgeted and what was paid for this employee, but that gap could be used to pay for those employees who were outstanding. The system is designed to have flexibility.

Representative Kemp asked if **Ms. Heilman** was suggesting that the hourly policy rate, that mid-point, needs to be competitive with the market and the minimums and maximums would be part of that flexible range around market? **Ms. Heilman** answered yes. **Representative Kemp** asked if the state were to fund across the board, with variations being taken into account, what would that price tag be to raise all positions to market level? **Ms. Heilman** answered that it would be around \$80 million.

Representative Ringo commented on the possibility of creating different benefit packages for various positions to allow compensation to be more competitive in the marketplace and to also save money. She expressed concern about eroding benefits. **Ms. Heilman** answered that with the incredible escalation of the cost of providing health insurance, the legislature needs to consider whether, for example, to continue providing family coverage, or altering the distribution of health insurance costs between the state and its employees. **Ms. Heilman** added that the state has a defined benefit retirement program and once an employee retires, that employee gets a benefit until they die. In the private sector, more and more companies are saying that was a great idea twenty years ago but that they can no longer afford that. Should Idaho honor our current employees and phase that program out with new hires, offering new hires a 401k?

Senator McGee asked **Ms. Ahrens** if keeping state employees' families insured is good public policy? Under a scenario where benefits might be staggered, would the state still be able to keep their commitment under the current umbrella? **Ms. Ahrens** stated that ADM could run actuarial scenarios, adding that each time a change is made to health insurance coverage, there is a financial impact. What may appear to cost less could end up costing the state more in the long run.

Senator Kelly expressed concern about paying lower wage employees with lesser benefits versus employees making higher wages. **Senator McGee** asked for a study to see how other states have designed benefit packages and thinks this would be helpful just as background information for the committee, without suggesting that our state do this. **Senator Andreason** agreed with **Senator Kelly** that the state needs to be very careful in this area legally, but there may be an area that could be studied further, such as employees working less than twenty hours; what kind of benefits should they receive?

Ms. Heilman said the market for low-skilled, low-wage employees offers a different packet of benefits than benefits for highly-skilled, highly-educated employees. **Ms. Heilman** said it is wonderful the state has been able to provide benefits, but the state must address salaries. There are scarce resources and other options must be explored to allow the state salaries to reflect the market.

Ms. Heilman next discussed performance bonuses and cost-savings bonuses, and provided an overview of leave benefits. In regard to sick leave, Idaho Code permits retirees to apply unused sick leave toward premiums for insurance. In the past, this was an issue that several legislators had proposed removing the cap. **Ms. Heilman** opposes removing the cap on this unused sick leave account because the ongoing cost would be about \$1.4 million. If there is \$1.4 million of ongoing money available, she thinks the state should put that into salaries.

Senator Andreason asked if that included a consideration for the loss of production as a result of being on sick leave. **Ms. Heilman** answered that the loss of production for being on sick leave would be difficult to quantify; that was the actual PERSI cost of implementing the legislation.

Ms. Heilman discussed severance pay. State law does not allow severance pay; that is very clear, but the meaning of the phrase "not under duress" is not clear and could be subject to interpretation.

Representative Kemp said she heard eleven potential areas of change based on her comments. **Ms. Heilman** stated there were at least that many areas of change in code, but probably the biggest is the compensation policy that the legislature wishes to have as their goal. In addition, what is the state's policy for employee and dependent benefits?

Senator Kelly asked **Ms. Heilman** about the current system of administering benefits in ADM, a certain level of decision making in DFM directly with the Governor's office, and administering personnel to some extent in DHR, in addition to PERSI being involved. Could the legislature address any problems this may cause? **Ms. Heilman** thinks that if the committee can view this system as integrated and almost seamless, and charge the agencies to work that way, the system would probably work a little better. Structure doesn't need to change, in her opinion, but directives in the budget process are addressed separately to the legislature and integration is needed at a policy level.

Matt Freeman, Senior Budget & Policy Analyst, Legislative Services Office was the next speaker. He presented a brief history of Change in Employee Compensation (CEC) funding for the last ten years, and a review of agency use of funding appropriated for personnel costs. State budget laws provide that no appropriation made for expenses other than personnel costs shall be expended for personnel costs of the particular agency for which it is appropriated. Agencies can move money down, but not up, and personnel costs are at the top, and operating expenses, capital outlay and trustee and benefit are below. If agencies have salary savings, they can reinvest that in their workforce, but they could also move it down to cover operating expenses or capital outlay. **Mr. Freeman** next discussed salary savings and how it affects different sized agencies.

Representative Roberts commented that the Controller's Office can generate a report showing vacant positions, authorized budgeted positions that an agency has money for, and some of

those positions remain unfilled for months. When those positions are not filled at all, where do those dollars go? **Mr. Freeman** answered that the positions fall off the Employee Information System after one year, but if less than one year, those ongoing savings will be reflected until the position is filled.

The next presenter was **Colonel Dan Charboneau**, Director, Idaho State Police (ISP), who shared ISP's experience with recruitment, retention, compression and to share with the committee his agency's internal funding mechanisms and policies regarding salary enhancement. **Colonel Charboneau** discussed issues the State Police have had with filling vacant positions and issues of new hires earning as much as five year veterans because of lack of adequate funding for the state personnel system.

Colonel Charboneau said the Hay system is a classification system; he has no problem with it as a classification system. However, he thinks the state got into trouble when the classification system was combined with ongoing compensation administration. That creates the potential for compression.

Colonel Charboneau discussed problems with how city and county law enforcement agencies can offer more money than ISP. **Colonel Charboneau's** compensation philosophy is simple; he wants ISP personnel dollars to go to reasonable salaries, addressing inequities and rewarding excellence. Only when he cannot guarantee that salary savings will be ongoing, does he consider using personnel funds for other purposes.

Senator McGee asked if ISP needs more freedom to use ISP dollars to keep valuable employees? **Colonel Charboneau** responded that what ISP needs is ongoing salary increases. **Senator McGee** commented that ISP has not only a funding issue, but also a structural issue as well if incoming ISP officers are paid \$7.00 per hour less than the city of Coeur d'Alene's officers.

Senator Stegner asked if ISP needs flexibility which is not allowed by state law. **Colonel Charboneau** said ISP has been assisted by DHR, DFM, and the Legislative Services Office. These groups tried to fashion what would be a reasonable career ladder for ISP, including a system for working through those steps or ladders. **Senator Stegner** expressed concern that ISP's plan conflicts with the state's merit pay law. **Ms. Heilman** said yes, but DHR worked extensively with ISP's team in developing the ISP plan, and DHR believes there is a problem in some public safety jobs where it is very difficult to differentiate performance between individuals. However, they seem to be able to perform better with more experience. **Senator Stegner** agreed that, at first glance, this point system might appear to not meet the state's standard. He asked if it would be advisable to pursue this kind of point system, particularly in public safety, but could it be applied to any number of job classifications within the state? Wouldn't that fall within an area that potentially the legislature should consider changing, if the general policy of the state is being considered for change? Doesn't this area need to be redefined? **Ms. Heilman** responded the state may want to look at valuing experience, but if the state goes by market, that will value experience; so, it is difficult to give a yes or no answer to that question.

Senator Compton asked if ISP needed more categories for their troopers and **Colonel Charboneau** said yes. He believes that Idaho must put a system together to allow dedicated employees who want to stay in a specific field where they excel, doing the job they were hired to do, to retain these outstanding employees and provide a career ladder for them.

Senator Compton applauded ISP for including in Project CHOICE the awarding of a point for taking on jobs of greater responsibility through training and education; he believes that employees should be rewarded for that, and incentives should be in place.

Representative Roberts commented on new hires at ISP versus new hires for Ada county, Nampa, the city of Boise, and asked what the roster looked like for individuals wanting to work for ISP? Is there interest in being an ISP entry-level trooper with a starting salary of \$16.10 per hour or \$33,488.00 plus starting benefits? Much has been said about retention and keeping good troopers at ISP; at entry level is there supply? **Colonel Charboneau** said ISP has been competitive in attracting new hires. **Representative Roberts** asked if in the past 4-5 years if ISP has had a situation where there has been a lack of qualified candidates for hire? **Colonel Charboneau** stated that this has been the case, and in the last 18 months, DHR and ISP have worked hard to fill that gap.

Representative Wills said that if the word "longevity" could be interpreted as "experience," meaning expertise, additional education and skills brought to a position should result in higher compensation. **Representative Wills** asked about problems with recruitment. **Colonel Charboneau** responded that would be difficult to answer; ISP has to look not only at the compensation package, but the available benefits; all officer candidates consider these when choosing where to work. Finding that balance is the problem; ISP doesn't need to be the highest paying police agency, but it does need to have benefits competitive for recruitment, with some excellent features to attract applicants.

In response to a question from **Senator Andreason**, **Colonel Charboneau** said the number of ISP troopers has changed very little in the last 25 years.

Representative Kemp reiterated that funding ISP was the challenge and asked what would it take on an annual basis to implement this plan? **Colonel Charboneau** responded that that price tag was at \$4 million for 5 years.

Representative Kemp commented that the ISP plan could become an excellent model for compensation, and asked if any other agencies in the state have gone through a similar exercise? **Ms. Heilman** said no other agency has such a specific and up-to-date model as ISP. **Representative Kemp** stated the committee could consider that this be one of the requests the committee might make to other agencies, so that the committee could have a more strategic plan for each agency as to how their funds would be used.

Pam Sonnen, Administrator, Division of Operations, Department of Correction (IDOC), was the next speaker, representing their Director, **Thomas Beauclair**. She discussed recruitment and retention issues. This last fiscal year, IDOC experienced a 25.44% turnover, and that was just among correctional officers; those consequences are felt not only in loss of training dollars, but also in workforce shortages. IDOC's management team strongly believes it is essential to enhance employee compensation, but the use of personnel funds to pay other capital outlay costs has severely limited IDOC's ability to provide long-term pay increases for their staff. In FY 2003, IDOC spent \$4,746,600 of their personnel budget on capital outlay costs, and in FY 2004, IDOC spent \$2,139,800. This included county jail expenses. In FY 2005, IDOC spent \$2,000,000 of their personnel budget on capital outlay costs. **Ms. Sonnen** said many correctional officers cannot support their families; in a survey conducted in January, 2005, 14%

or 113 correctional officers have second jobs in order to support their families. She said a large issue is IDOC's employees have a greater workload and yet they get compensated at a lower rate than fellow state employees. IDOC is constantly providing a means for compensation as well as recognition for employees through awards, mentoring, coaching, positive feedback, and training opportunities to provide a better staff environment.

Representative Kemp asked if it was correct that IDOC, over the last 3-4 years, had taken personnel moneys and used it for capital outlay in the amount of \$7 million to \$8 million. **Ms. Sonnen** confirmed that was correct. **Representative Kemp** continued by asking how IDOC could have enough personnel costs to move down to cover other costs, yet not have enough money to address critical compensation needs among its own workforce. **Ms. Sonnen** stated that IDOC is a growing industry. Over the last ten years the prison population has grown 100%. IDOC is spending their personnel money on inmate growth. IDOC does not have the operating funds to pay the county jails, and IDOC has not gotten money for capital outlay, and buildings and equipment are not being maintained; that is where the money has gone. **Senator Andreason** asked at what level the decision is made to move money from personnel costs to capital outlay, and what the criteria was in order to move that money, or what circumstances are present that cause this to happen? **Ms. Sonnen** stated that the IDOC Director makes those decisions, along with DFM; at year-end, IDOC must pay their bills, say for county jails, because more inmates came through the system than were budgeted for. **Senator Andreason** asked if this money was being moved from personnel costs to capital outlay at the end of the year, and **Ms. Sonnen** confirmed that to be true, stating that it was not expended before the year-end for personnel costs because IDOC is also coming up with a comprehensive pay plan for IDOC. In that comprehensive pay plan, IDOC will have steps in place and have money for leftover personnel money to be spent in that area. IDOC's Director has talked to the Governor, to DFM, and has requested that IDOC be able to use all of IDOC's personnel money for personnel. **Senator Andreason** responded that he did not understand IDOC having to get permission from the Governor or DFM to spend personnel money on personnel. **Ms. Sonnen** responded that IDOC will need additional funding to cover capital outlay if personnel costs are not moved down.

Representative Roberts stated that Idaho has a private prison, and asked **Ms. Sonnen** if her comments reflected inclusion of their data as well. **Ms. Sonnen** responded that she did not have turnover data at the private prison, but anecdotally their turnover is even higher than IDOC's, according to their warden, because they do not offer the same benefits that the state offers. They do experience the same recruiting problems that IDOC has, and by contract the private prison cannot pay their employees more than IDOC pays their employees

Attorney General, **Lawrence Wasden**, was introduced next. **Mr. Wasden** said his visions and goals of the Office of the Attorney General are: (1) The Attorney General is committed to providing the state with the best legal representation possible. (2) The Attorney General's office should be an employer of choice. That means that his office should be able to attract the top talent in the state. (3) To function at the highest level, the Office of the Attorney General must be able to retain the best legal talent.

Mr. Wasden discussed issues with law firms and other governmental entities in and outside of Idaho offering more money than the Attorney General. **Mr. Wasden** said recent history indicates that the primary reason attorneys leave the Attorney General's office is for higher salaries. The Attorney General's office should not be viewed as the training ground for the rest of Idaho's legal community. It is in the state's best legal interest to facilitate career tracks for

attorneys within the Attorney General's office. With over 100 attorneys, the method that works best for the office would be to base salaries on the year in which an attorney was admitted. This creates a range to use for new hires. The difficulty is that someone hired two years ago, who has not seen any significant increase in salary, is often earning less than someone with the same bar year, who was hired later. There are two problems presented here; first, the Attorney General's office is unable to hire the new person for what they hired the same person two years ago. Second, the office is unable to give even an equalizing pay increase to those attorneys who have been with the office longer. In addition to retention problems, this also creates a morale problem.

Senator McGee expressed concern over the disparity between the Attorney General's office and Ada County, and would like to see the state of Utah, Oregon and Washington's peer comparisons. Are states across the country having trouble with their attorney general's offices competing with county offices? **Attorney General Wasden** answered that the primary competitor in Idaho for legal talent in this valley is Ada county, as well as the city of Boise, and this is a difficult problem for the Attorney General's office. **Mr. Wasden** did not know whether this problem is being experienced in other state attorney general's offices, but he volunteered to research that information for the committee. **Senator McGee** commented that it would give the committee, as decision makers, the bigger picture of attorneys in their peer group.

Senator Compton asked if the problem of recruiting has caused positions to not be filled for any length of time, and has there been attrition in positions which have not been able to be filled? **Attorney General Wasden** answered that there is trouble in recruiting. The attrition rate numbers show that no positions have been lost, so eventually positions are filled, some taking longer than others. **Senator Compton** totally respects the value of experienced attorneys, but asked for specific numbers as to vacancies and how many experienced employees have left the Attorney General's office; it was agreed those numbers will be later presented to the committee.

Senator Kelly said it sounds to her that the main issue is funding. She asked if there were other issues with the personnel system itself or the benefits. **Attorney General Wasden** answered that funding is the primary problem; a law office has people, and the major component of their budget is people, so any dollars received goes to those people. If those dollars are not received, there is no place to pull dollars from; there is no facility to be shut down, the office is comprised of people.

Dr. Robert Kustra, President of Boise State University said there is one distinction that could be drawn between the institutions he was representing and a good number of other state agencies who have come before the committee, that is the fact that hiring is done from a national labor pool. Higher education faculty is highly mobile, highly educated and very competitive when it comes to salaries. It gets very expensive to bring an employee in from far away. In the higher education's departments of human resources at Idaho State University, University of Idaho, Lewis and Clark, and Boise State University, when dealing with classified employees, they can individually deal with their recruiting, retaining or dismissals. That can be done more cost-efficiently themselves than being tied to a statewide department of human resources. **Dr. Kustra** went on to discuss the concept of delegated authority.

Dr. Kustra explained that the University of Idaho is a land grant institution and the state's only institution in Idaho that is a research extensive university. As such, it competes with other land grants across the country when it comes to attracting people. The University of Idaho is

challenged in recruiting for information technology positions, high level finance positions, professional positions in all areas, counselors, child care providers, and many other positions. In retaining people, they have particular challenges in the biological and the agricultural sciences.

At Lewis and Clark State College, **President Dean Thomas** provided **Dr. Kustra** with some information on the history of their salary and wage progress over the last few years. Over the past 3 years, the employees at Lewis and Clark State College have averaged 1.2% in annual increases.

At Idaho State, in the professional staff area, Idaho State has experienced a 10% decrease in relation to market pay rates over the last 3 years and is paying an average salary that is more than 20% behind market data.

Dr. Kustra showed faculty salaries at BSU and Idaho State; they are 13% - 20% below faculty salaries across the country. At BSU, exit interviews are done, and 8 out of 12 professional staff said they left because of salary; 24 out of 30 classified staff said they exited because of salary.

Dr. Kustra ended his presentation by stating that if Idaho is going to make its employees the highest priority, then it would seem to make sense to begin at the outset of the legislative session in establishing compensation increases as the number one priority. Whatever this committee decides the appropriate level of earnings should be for state employees, **Dr. Kustra** urged the committee to begin there, rather than go through the process until legislators get to the end of the session, realizing the state is short funds and thereby having to knock down that priority to a lower level. **Dr. Kustra** said if state employees can be prioritized at the beginning of the legislative session, agencies, employees and higher education will all be better off for this.

Representative Ringo asked what **Dr. Kustra** has specifically seen in terms of how attracting and retaining top faculty translates into the ability to attract top students who then might stay in Idaho to study? **Dr. Kustra** stated that the University of Idaho does about \$100 million of externally sponsored research per year, Idaho State does about \$35 million annually, BSU does about \$25 million annually. When it comes to recruiting top-flight undergraduates, and especially graduate students, it's going to depend on the name and reputation of the faculty member who is doing the research in a particular department. A department on the move is going to be a department that has the best qualified faculty, highly paid faculty, and ones who are bringing in grants.

Senator Compton pointed out that if educational institutions in Idaho can't compete as viable institutions, the state is doomed to be just a nice place to live, but that won't attract or retain employees who can make more money elsewhere. **Senator Compton** asked **Dr. Kustra** to bring this information to the entire legislature, in order for them to better understand the problems and possibly how to solve them.

The next presentation was given by **Cathy Holland-Smith**, Principal Budget & Policy Analyst, Legislative Services Office. She said JFAC appointed a budget subcommittee on DHW in the fall of 2004 and went through a program profile process where they looked at all aspects of funding, management of resources within DHW, where their costs had increased over time, what had been funded and hadn't. Primarily the result of that was awareness that as DHW increased medical costs, regardless of Medicaid, they were running institutions that were very

heavily involved in providing medical services to rapidly increasing populations. DHW has been taking money from personnel because of those pressures and moving money into what is called operating expenditures, and trustee and benefits, to pay for those expenses.

Ms. Holland-Smith discussed a 2003 legislative audit report in which the legislative auditors found that there were significant error rates in the food stamp program and in an Office of Performance Evaluations *Child Welfare Caseload Management*. **Ms. Holland-Smith** thought this information was important for this committee to understand, because this level of input had not occurred during the last several years. Budget reductions in Medicaid have caused less attention to be paid to some other areas of DHW.

Ms. Holland-Smith said higher education has the highest number of FTPs, around 3,700; DHW has close to 3,000, and IDOC has around 1,500. Looking at DHW, the committee can become aware that one employee and one division really does not equal another employee in a different division. **Ms. Holland-Smith** said FTPs have been looked at as a way to understand whether the workforce was growing, how much DHW was spending on personnel, and whether or not savings were available in personnel, either to use for other responsibilities in DHW, or to add additional staff. She said the evidence shows that legislators were frustrated with the amount of personnel cost savings being generated in DHW. She said DHW did not have a strategy to analyze the complete picture at the time. So the legislature responded, using a tool the legislature had, to send a message to maximize the use of DHW's personnel dollars and hire the personnel they need. If the legislature sees that DHW has significant numbers of vacant positions, then the legislature concludes that DHW does not need additional positions to do even more work.

Ms. Holland-Smith said if only FTP is being considered, this is very skewed information and is not accurate. Loss of productivity must be measured in this state and the committee must take this into consideration. Some state agencies hire temporaries, but it is not typically a productive workforce. When you extend the time a position is vacant, and this is what DHW has done, along with other departments, and money is generated; this is where savings occur and are a one-time savings. How long a department keeps those positions vacant, becomes the issue; that can be managed quite well if the turnover rate is known, and about how long those positions will be kept vacant. Salary savings are substantial, but the key is ongoing savings, the difference between the old employee and the new employee. The state is hiring employees at rates that are higher than the salary of the person who left; where is the money coming from? It's obviously coming from either salary savings, previously generated, or this idea that they will generate new salary savings because there will be turnover and the vacancy rate will be extended.

Senator Stegner asked for clarification on FTP authorized; is that the same as FTP funded?

Ms. Holland-Smith answered that it is not. FTP authorized is FTP assigned to that agency, but agencies can operate with a variance, both positive and negative. The budget allows for a variance of 5%, up or down, so it's not necessarily so that it is a funded FTP. **Senator Stegner** stated that the legislature feels like DHW is 100% funding the FTPs and DHW feels they are only funding 97%; are we talking about the FTPs that are authorized or those FTPs that are established, and the response was "authorized." **Senator Stegner** asked what FTP established represents. The response was those positions on the employee information system in the office of the State Controller.

Senator Kelly asked about positions being vacant for a year, which then go away, and she asked what that means? **Ms. Holland-Smith** stated that it falls off the employee information system; it doesn't necessarily go away in the appropriation process for those FTPs that are authorized. It falls off or disappears from the employee information system, unless DFM intervenes and allows the agency to reestablish that position.

Representative Kemp asked what happens when within DHW a funded position goes unfilled, leaving money available in the personnel pot, which can be moved down into operations. What does DHW do with those funded, unfilled position dollars from personnel, and where are they going? **Ms. Holland-Smith** answered that DHW does several things with it: they use temporary workforce in some cases to address a vacant position for whatever reason, and they have transferred some money into operating to hire temporary agencies to hire individuals to fill that workforce. DHW has used the money for capital outlay, for software development to create systems for efficiency so they can have fewer FTP in the future, and DHW has used it for many different purposes, not all that directly represent or go back to personnel. This is one of the challenges, not only in this agency, but many of the larger agencies.

Senator Andreason asked where DHW is with regard to being told to reduce their authorized positions, and then hiring contract people; how are these contract employees identified? **Ms. Holland-Smith** stated that it does not show up as a personnel cost; it shows up as an operating expenditure, and that situation does occur at DHW, and an approach has been taken to remedy that. There are contract employees sitting in offices looking like state employees and using state equipment, but they are not FTP and not on the state payroll.

Representative Roberts referred to the Hay System annual market adjustment and where positions fit in, and asked if this shouldn't be the avenue that DHW uses to adjust salaries to get things done? **Ms. Holland-Smith** answered that she, as well as other members of the agency and the legislature, has been very concerned about DHW's entire budget process and their accounting system used to report their actual expenditures to both the state and federal government. **Representative Roberts** pointed out his belief that this philosophical point needs to be addressed by this committee. Is the committee going to set up a plan that directs policy from a legislative standpoint, or should a budget be set that is really flexible, allowing an agency to say that they need money for one area, when at times, it is not spent in that area, and the money ends up somewhere else? How should the legislature respond to that next year when the original intent never got funded? **Ms. Holland-Smith** identified this issue in the process that DHW went through with the JFAC committee, and a lot of emphasis is placed on something in one legislative session, and by the time the next session convenes, the emphasis has shifted somewhere else; we have not taken the opportunity as a legislature to follow up and find out what happened.

Ms. Holland-Smith discussed DHW's 6.6% vacancy rate, and how DHW's emphasis is on vacancy rate and the legislative emphasis has been on FTP. They doubled that and extended the time it takes to hire employees and those savings were transferred into operating costs, and trustee and benefits, and that is DHW's hedge. So, if the Governor doesn't recommend, and if the legislature doesn't give DHW any more money, that is what they do.

Ms. Holland-Smith said another problem was found in technology staff. There were a significant number of FTPs appropriated, some were controversial, due to the fact there were members of the legislature who did not think DHW needed FTPs. She then addressed

concerns and opportunities such as productivity loss; DHW is not measuring productivity loss at the present time and it appears to be significant, and DHW has an opportunity to do so, and that was addressed by JFAC. DHW, along with DFM, other agencies and the Legislative Services Office stated that if there is not an understanding between vacancies, turnover and funding, it will not be able to be determined the real opportunities or the shortfalls. In addition, capital outlay has not been routinely funded, and this year JFAC did fund capital outlay for new employees and gave the institution some repair and maintenance money. Finally, strategies to maximize state funds to match federal dollars that seek the greatest return of total dollars is called federal maximization, and it is an approach or strategy that DHW uses to get more money, basically to deal with those issues that DHW feels are unfunded. There has been significant pressure; the federal government, through Medicaid, was giving the state 90% match for IT, and you might have a child protection process that is only getting a 50% match, so there is much pressure for that dollar to go to where it is needed the most. This also speaks to **Representative Roberts's** question as to whether or not DHW can spend the time where the focus has been on the part of the legislature. It's an unfair competition when that federal dollar pushes an agency to seek either approaches or strategies to maximize different elements in their budget that were not addressed by the legislature. This has a strong impact. There are many pressures, some of which don't encourage DHW or other agencies to keep personnel dollars in personnel.

Representative Ringo asked for information from surveying the agencies and to what extent agencies are finding it necessary to move personnel dollars into other expenditures such as capital outlay.

Representative Roberts stated that this committee needs data that would show the salary savings in the whole makeup, with all the components or salaries in this state, where are the sources from and what is appropriated through JFAC process, through the budget process, from salary savings, from funds outside; he thinks the committee needs to look at different agencies and compare that with Controller's Office reports, the actual checks that are written, to find out and track where these funds are coming from. If there is a tremendous shift going on back into salaries, or back into capital, and not hiring employees intended by the legislature to implement policy, then what the committee needs to do is to change the budget and put the money where it is needed, because it is ending up there anyway. This needs to be looked at, and this data needs to be gathered for the committee.

Mr. Joe Brunson, Deputy Director, Department of Health & Welfare, addressed what DHW's policy was in funding salaries, and DHW believes they ought to pay employees a market equivalent for positions that have equal responsibility in the marketplace. The problem comes in funding; budgets are tight; crises occur in the state; other programs need attention in the state. The Hay System is not the problem, in **Mr. Brunson's** opinion, it is a workable tool, but it comes with the problem of funding the compensation process to be responsive to market. DHW needs a process to reward outstanding performance on a regular basis, equitable for that performance.

The compensation and budget setting reality at DHW is, as **Mr. Brunson** stated, that DHW has very little control over that. A plan for the budget is suggested, and there is a single plan for all state agencies relative to compensation; that is then brought to the legislature and they decide how much is appropriated, and when that is given to DHW it is implemented, and that is the law

and DHW complies with that. DHW studies the marketplace and DHW makes those necessary adjustments; oftentimes those adjustments are made from so-called salary savings that come about due to vacant positions. The problem is that in the year those salary savings occur, DHW has it covered, but that does not get included into DHW's base; it does not get funded for ongoing years. The committee might think about how agencies can come back with a supplemental request for those adjustments in pay, or there may be a piece in the budget around maintenance of effort where an agency could be identified certain payline adjustments for special classes or critical positions that could then be presented to JFAC or other legislative committees, to help them understand what DHW has done throughout the year. **Mr. Brunson** discussed turnover rates and retention among professional staff.

Mr. Brunson stated that DHW's budget analysts say they are 97% funded for personnel; this is because DHW has a certain turnover rate and the legislature understands that, so they fund DHW, taking that into account. **Mr. Brunson** discussed how personnel dollars move down at DHW. DHW had \$1.8 million in salary savings in personnel that DHW moved to trustee and benefits this past year for child protection services. DHW does have recruitment problems and retention problems due to salaries, but only 60%-70% say salary is the reason for leaving DHW; caseloads at DHW are high.

Representative Roberts asked **Mr. Brunson** if DHW could do the same things with a contingency in the budget for DHW, rather than moving down salary savings. **Mr. Brunson** answered that there are many ways to deal with this issue; the key was that JFAC funded DHW appropriately. For many years, DHW did not get funded adequately in many areas, so the only recourse was for DHW to move down salary savings.

Representative Roberts added that the trust element is very important, and pointed out that it goes both ways; as a legislature, if they have the knowledge that DHW needs a certain amount of funding to do one thing, and they later find out that the money went for something entirely unrelated, that erodes trust and creates suspicion. If DHW has crises (not predictable events) that occur after a budget is set, then the legislature needs to be made aware of these situations, so policy can be changed to respond.

Senator Compton reiterated that good communication is very important between DHW and the legislature, adding that there is probably no other agency the size of DHW that has an unmeasurable task to perform during the year; it is understood how difficult it must be for DHW to accurately forecast its needs when so many crises affect it during the year. Recognition programs have been discussed at these meetings, having a \$1,000 cap, and **Senator Compton** asked **Mr. Brunson** about that program, and recognized that DHW is doing more impromptu recognition in regions, perhaps with a plaque or something, and this is appreciated by employees when money is not available for monetary compensation. **Mr. Brunson** stated that DHW recently spent \$1,284,000 on bonuses for DHW's staff, and that came from FY 2004 carryover which was salary savings, and gave a \$500 bonus to all DHW staff who were eligible; about 2,400 employees of the 3,000 received that bonus. Those employees who work part-time were given a portion appropriate to their length of service. In addition, DHW twice a year does an employee recognition program and awards are given for excellence, outstanding achievement and customer service. These employees are nominated by their peers or from outside the agency. DHW makes a special effort to commend those employees in their regions

and also recognize employees with longevity. **Senator Compton** suggested that DHW let local legislators know when these ceremonies will take place, to invite their participation as well.

Senator Andreason suggested that various human resource directors of state agencies be invited to a future committee meeting, and also invited the committee members to individually make recommendations to **Matt Freeman** as to what should be addressed in the next meeting. **Senator Andreason** invited agencies to also make recommendations to **Matt Freeman** for future agenda items.

Representative Kemp asked the co-chairs for a small segment of time at the end of each meeting for the committee to summarize, as a group, what is heard each day and how that may have an impact on the policy decision the committee makes going forward; that would give the members an understanding, at the end of each meeting, as to the direction for future policy recommendations.

Senator Andreason announced that the next committee meetings would be on Monday, August 29, 2005, at 1:00 p.m. and August 30, 2005, from 9:00 a.m. to 5:00 p.m. The meeting was adjourned at 4:53 p.m.